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AGENDA ITEM 3b

TO: MEMBERS OF THE PERFORMANCE AND COMPENSATION COMMITTEE

I. SUBJECT: Proposed Amendment to Government Code Section 20098

II. PROGRAM: Administration

III. RECOMMENDATIONS:

- 1) Direct Staff to Pursue the Establishment of Civil Service Classification for the Chief Financial Officer
- 2) Direct Staff to Pursue Legislation to Amend Government Code 20098 to Add the Chief Financial Officer

IV. ANALYSIS:

Background

Senate Bill (SB) 269, enacted in 2003, amended Government Code (GC) Section 20098 to provide that the Board of Administration shall fix the compensation of the Chief Executive Officer, Chief Actuary, Chief Investment Officer and other investment and portfolio managers whose positions are designated managerial. Assembly Bill (AB) 1317, enacted in 2007, further amended the Code to provide that the Board also shall fix the compensation of the General Counsel position. For all other senior level managerial positions, salaries are set by the Department of Personnel Administration (DPA). Both bills and GC 20098 are included for information, as Attachments 1 through 3.

The original rationale for placing salary setting authority with the CalPERS Board was to ensure the Board could effectively exercise its constitutionally imposed fiduciary powers and duties, in part, by hiring the highest caliber candidates for the most critical senior executive positions in the organization. Independent salary setting authority was deemed necessary to recruit nationally and attract top candidates to CalPERS. The primary recruitment source for such positions typically has been the private (for-profit) sector, where executive salaries routinely exceed what the civil service pay structure can accommodate.

Issue

The purpose of this agenda item is to seek direction from the Performance & Compensation Committee (P&CC) to create a new Chief Financial Officer (CFO) civil service classification and pursue an additional amendment to GC 20098 to include the position of CFO under the Board's salary setting authority. Currently, such a position would fall into the Career Executive Assignment (CEA) category and would be confined to the salary ranges set by DPA:

CEA LEVEL	SALARY RANGE
1	\$74,076 - 94,056
2	\$93,780 - 103,392
3	\$103,128 - 113,712
4	\$108,216 - 119,268
5	\$114,528 - 126,240

In addition, the candidate pool would be limited to current or former State employees and certain legislative branch employees.

As recently proposed under the new CalPERS organization structure, the CFO will oversee "corporate finance" and coordinate other finance functions throughout the organization to create a single point of financial accountability. Establishing such a position and hiring a high caliber, experienced individual is a critical step in achieving a higher level of transparency and tighter internal controls in our financial operations. It is anticipated that the cost of establishing such a position with a competitive salary will be offset by the anticipated savings generated by a higher standard of organizational financial accountability.

It is very likely that the most highly qualified candidates will come from large financial institutions in the private sector, endowments or other large governmental pension funds. For the Board to seek CFO candidates from other large, complex financial organizations outside the State system, a new civil service classification must be established and approved by the State Personnel Board (SPB) and DPA. In addition, legislation would need to be proposed to amend GC 20098 to specifically include the CFO position under the Board's salary setting authority.

Should the P&CC direct staff to do so, Attachment 4 provides the steps necessary to create a new classification and seek legislation to amend GC 20098.

V. STRATEGIC PLAN:

Under Goal III of the Strategic Plan, CalPERS is committed to sustaining a high performance work culture. This can be accomplished at the highest executive levels through the establishment of methods that provide broad flexibility in the recruitment, retention and compensation of key personnel.

VI. RESULTS/COSTS:

The establishment of performance plan measures is critical to the management of a competitive compensation program for executives at the highest levels of the organization. This, in turn, is critical to the success of the organization. The cost of performance awards that might arise from the recommendations in this item will be funded from existing resources.

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Attachments